

City of Detroit

CITY COUNCIL

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ANNE MARIE LANGAN
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TO: COUNCILMEMBERS

FROM: Irvin Corley, Jr., Director *ICJ*.

DATE: October 21, 2008

RE: Obsolete Property Rehabilitation Exemption Certificate for 2501 Russell Street Project (**Recommend Approval**)

During last Wednesday's Planning and Economic Development Standing Committee meeting, a discussion was held on the obsolete property rehabilitation exemption certificate for the 2501 Russell Street project. At that time, I did not have the financial information (proforma statements) from the developer explaining need for a 12-year abatement for this project, so a report was not submitted by me on this issue. I am now in receipt of the proforma statements from the developer and the following is a report of my review of these statements.

Project Description

2501 Russell Street project consist of two parcels with 2501 Russell Street and 1350 Adelaide addresses. The combined property was constructed in the early 1900's and is located in the Eastern Market District bounded by Russell, Adelaide and Winder streets.

The Russell Street property has been vacant for some time and suffered severe deterioration. The property needs considerable rehabilitation to the plumbing, electrical, mechanical, heating and fire suppression systems. The interior/exterior of the building will be fully rehabilitated.

Phase One of the Russell Street project involves the build out and initial opening of a restaurant, featuring two full kitchens, two bar areas, a large dining area and a completely renovated interior. Eventually, Phase Two of the project will focus on development of a luxury boutique hotel. The hotel will consist of 7 suites, a conference room, fitness area, and business center for guests.

The developer, Russell Street Investments LLC, projects creating 40 full-time jobs. Council should note that the promised number of 40 full-time jobs was inadvertently omitted from the Obsolete Property Rehabilitation Exemption

Certificate Agreement entered into by the developer and the Planning and Development Department. Mr. Scot Turnbull representing the developer and Mr. Clinton Griffin from PDD will present a corrected agreement reflecting the promised jobs shortly. Council should also note that approximately 25 of the promised 40 full-time jobs will be needed for the hotel operations.

Project Cost, Financing and Cash Flows

The developer intends to spend \$1,444,000 rehab the 2501 Russell Street property into a restaurant and eventual hotel. The obsolete property tax exemption will be based on this value.

A sources and uses statement is attached supporting the project cost. Under the Sources section, the developer's equity and contributions from family in the project represent about 86% of total project cost, which is excellent. Sources also include a \$200,000 loan from the Detroit Economic Growth Corporation.

The project cash flows (which are available in our office for review) show very marginal net cash flows for at least twelve years from inception of the project. Without the 12-year obsolete property tax abatement, the project would probably not break even for at least first five years of the project.

With the abatement, the project has sufficient coverage to meet its obligations and still have a small positive cash flow. Therefore, the project needs a 12-year abatement provided by the obsolete property tax exemption certificate to be economically feasible.

We recommend approval of the obsolete property exemption certificate for the 2501 Russell Street project.

Attachment

cc: Council Divisions
Auditor General's Office
Douglass Diggs, Planning and Development Department Director
Clinton Griffin, PDD Development Specialist
Joseph Harris, Chief Financial Officer
Pamela Scales, Budget Director
Londell Thomas, Mayor's Office

Sources and Uses Statement for the 2501 Russell Street/1350 Adelaide Project

Sources

Private Equity	\$443,000
DECG	\$200,000
Contributions from family	\$801,000
Total Sources	<u>\$1,444,000</u>

Uses

Salary & Wages	\$59,000
Contract Work	\$380,000
Inventory	\$100,000
Advertising	\$10,069
Utilities	\$4,764
Insurance	\$18,000
Legal	\$2,000
Supplies	\$18,703
Entertainment	\$9,000
Repairs	\$364,000
Materials	\$127,109
Licenses & Permits	\$59,604
Architect	\$40,000
Dumpster	\$18,000
Interest	\$66,000
Equipment	\$110,000
Other	\$57,751
Total Uses	<u>\$1,444,000</u>